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CLIMATE FOR DEVELOPMENT

QUEBEC REGION

... of a series of supplementary working papers prepared for
submission to the Standing Committee on Regional Development
by the Minister of Regional Economic Expansion.

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INTRODUCTION

The establishment of the Department of Regional Economic Expansion in 1969 underscored the federal government's concern for promoting balanced development in the various regions of Canada. Experience and analysis since then helped to forge a much broader and more comprehensive approach to the subject.

To arrest the trend toward increased concentration of economic activity in the major industrial centres of the country and to ensure that the potential of each region is tapped, it has been recognized that a more closely integrated approach by all levels of government is required. Many policies and programs at all levels of government affect economic development, and a high degree of coordination is necessary to achieve progress in this field.

Each province has its own set of social and economic circumstances and development opportunities. Effectiveness in regional development policy therefore depends to a considerable extent on a continuing process of regional and provincial analysis, in order to ensure that regional development measures correspond with the programs of other federal departments. This report is designed to help ensure that regional and provincial circumstances, priorities and concerns are reflected when new or modified federal programs are being implemented.

This study comprises three sections. The first section presents a summary of the report and outlines prospects for the development of the province. The second section highlights economic circumstances that have an important bearing on the process of economic development in Quebec. The third section describes certain opportunities for future development.



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QUEBEC

SUMMARY AND PROSPECTS

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SUMMARY AND PROSPECTS

In relation to the Canadian provinces as a whole, Quebec appears to be a region that has attained a comparatively high level of development. In fact, it lags only behind Ontario in industrialization (24.6 per cent of total employment in 1975 was concentrated in the manufacturing industry in Quebec, compared with 25.6 per cent in Ontario) and urbanization (81.2 per cent of Quebec's population lived in urban centres in 1971, compared with 84.2 per cent in Ontario).

On the other hand, certain aspects of the Quebec economy reflect major structural deficiencies. The unemployment rate has tended to remain relatively high - approximately 30 per cent higher than the national average - despite a lower participation rate in the adult work force. In addition, the personal income per capita in Quebec has continued to be lower than the national average. In 1975 it was 8 per cent lower than that of Canada as a whole, and nearly 25 per cent lower than that of Ontario. There are also significant disparities between the various regions of Quebec. Disposable personal income per capita in the Lower St. Lawrence and Gaspé regions was only 55 per cent of the national average, and the unemployment rate was generally above 20 per cent. Relatively unfavourable employment conditions kept the participation rate below the national average, and provoked a strong out-migration from these regions.

Analysis of the key performance indicators reveals that over the long term, the rate of growth of the Quebec economy will not be entirely satisfactory and will not enable the best use to be made of available resources. In fact, Quebec experienced a decline in relation to other regions, particularly in the sixties. In addition, the slow growth rate in the province has made it impossible to resolve the problem of under-employment and has caused a marked decline in population growth.

Quebec's economic difficulties can be explained to a large extent by weaknesses in the province's manufacturing industry. Since this industry occupies a relatively important place in Quebec, developments in this sector cannot help but have a considerable impact on the whole economy. Because of the deficiencies in its structure, however, this industry has been unable since the early sixties to contribute fully to the development of the economy. In fact, Quebec industry is

concentrated to too great an extent in low-growth and low-productivity activities. It has not been able to modernize quickly enough to adapt to new demand conditions.

The shift in the Canadian economy's centre of gravity also explains the deterioration of Montreal's relative position. The Montreal area is still the only real development pole in Quebec, and its dynamism affects the whole provincial economy. Over the last two decades its position has deteriorated in a number of key sectors, notably transportation, financial services, commercial services and research. It appears that the recent economic boom in Montreal is due more to a few large-scale construction projects than to any long-term change in trends.

The sharp upturn in economic activity from 1972 to 1974 checked the decline of Quebec's relative position, though it did little or nothing to narrow the gap that had developed during the previous period. Quebec's economic growth was stimulated by the strong internal demand sustained by a number heavy-investment projects such as the James Bay development, the Olympic Games, the Mirabel Airport and the extension of the Montreal subway, as well as by the strong demand for commodities of which Quebec is a major supplier. This revival also resulted in a remarkable increase in employment - there was a net creation of over 200 000 jobs, 45 000 of which were in the manufacturing industry. However, this evolution had only a marginal effect on the unemployment situation, since the unemployment rate was still 7.3 per cent in 1974.

The slowdown in economic activity that affected all industrialized countries in 1975 was also felt in Quebec, which experienced a considerable decline in the growth of production, investment and employment. Measured in real terms, the growth of production was almost nil. The decline in production was particularly marked in the manufacturing, forest and mining industries. Among those most affected were the wood, furniture, paper and related products, textile and knitwear industries. The construction industry, on the other hand, registered appreciable increases in 1975. The performance of the Quebec economy was particularly disappointing with respect to employment. The net number of new jobs in 1975 was only 35 000, or an increase of 1.5 per cent. The decline in employment growth

led to a considerable increase in the unemployment rate, which rose from 7.3 per cent in 1974 to 8.8 per cent in 1975. In December 1975 it was 9.2 per cent, which meant that some 250 000 people were unemployed.

It must be pointed out that the performance of Quebec's manufacturing industry has deteriorated over the past year. Capital expenditures in the manufacturing sector decreased by 0.6 per cent in Quebec, while they rose by 37.6 and 18.2 per cent in Ontario and Canada respectively. There was also a net loss of 21 000 jobs in the manufacturing sector during the year.

All things considered, the prospects for the Quebec economy in 1976 are still uncertain. The economic upsurge registered in Canada since the third quarter in 1975 has not yet been felt in Quebec, where the situation remains unchanged. No doubt it will still be several months before any signs of improvement will be seen.

The economic upturn in North America as a whole and the revival of the housing construction industry will enable a number of Quebec businesses to raise their level of production. On the other hand, surplus production capacity in several industries, large accumulated inventories and uncertainty as to the strength of the revival could curb the increase in production and investment from the private sector. Short-term prospects for Quebec's manufacturing industry suggest that growth will be relatively slight. The volume of shipments is expected to increase only slowly, and Quebec may even register a further decline in capital expenditures.

The prospects for the labour market situation are particularly disappointing. On the whole, the increase in production is not expected to result directly in the creation of new jobs, since a number of companies that chose to reduce the hours of work rather than dismiss employees will be able to increase production without hiring new employees. In the short term, therefore, the unemployment rate is expected to continue to rise during the first quarter and then gradually decrease.

The evolution of the economic situation in the Montreal area will merit close attention in 1976. The fact that construction for the Olympic Games and for certain other major projects in the industrial and commercial sectors will be completed and that some government investment projects will be staggered over a longer period suggests that Montreal may experience a slowdown in economic activity during the second quarter.

Taking into account the present economic situation in Quebec, there will need to be a sufficient number of new jobs created to help reduce the problem of under-utilization of human resources. Moreover these new jobs will have to be created in more modern sectors in order to provide opportunities appropriate to an increasingly well-qualified labour force. In addition, adequate retraining programs will probably have to be set up for workers displaced from the more traditional sectors.

Because of the deficiencies inherent in Quebec's manufacturing industry and the preponderant role this industry plays in the province's economy, development objectives cannot be achieved unless the industrial structure is strengthened considerably. In addition, much greater attention will have to be given to processing Quebec's natural resources. Moreover the role of the Montreal area as a development pole will have to be consolidated at the same time as the development possibilities in each region are being exploited.

ECONOMIC CIRCUMSTANCES

Demographic Changes

From 1974 to 1975, the population of Quebec increased by 54 000 to reach a total of 6 188 000 inhabitants, indicating an annual rate of increase of 0.9 per cent. This rate was slightly higher than it had been in the past five years, but still very low when compared to that of Ontario or Canada, where growth rates were 1.6 per cent.

Since the mid-sixties, the population of Quebec has grown slowly, and Quebec's share of the Canadian population has decreased from 29 to 27 per cent between 1964 and 1975. During the same period, the relative size of the population of Quebec declined rapidly in comparison to that of Ontario, dropping from 84 to 75 per cent. While the population of Ontario increased by 1 595 000, that of Quebec grew by only 604 000.

The slow growth of Quebec's population can be explained by the rapid decline in the birth rate, which is now the lowest in Canada, as well as by the unfavourable migration trends of past years. The increasing number of women in the labour force, as well as the marked change in attitude toward family size and birth-control, are the main reasons for the declining birth rate. In 1975, in-migration exceeded out-migration in Quebec for the second consecutive year.

Quebec's current population situation is a subject for concern, since it reflects the relative shift of economic activity toward Ontario and cannot help but have repercussions on investment decisions made by businesses.

Employment

The under-utilization of human resources has always been a major problem in Quebec. The improvement in the growth of employment in 1973 and 1974 has not brought significant decreases in the level of under-employment, and the unemployment rate has remained at a high level. In addition, the scarcity of available work has tended in the past to keep the participation rate below the national average, by delaying the entry of young people into the labour market and by discouraging some of the female population from entering also. It should

be noted that, if the employment situation is worrisome for the province as a whole, it is even more so for certain regions of Quebec.

In the 1967 to 1972 period, employment in Quebec grew very little, with an average annual rate of increase of only 1.4 per cent, compared to 3.2 and 2.5 per cent for Ontario and Canada respectively. The situation improved rather noticeably in the two years which followed, when the province recorded the net creation of 128 000 jobs in 1973 and 74 000 in 1974. The employment situation has, however, been constantly deteriorating since then. In 1975, employment in Quebec increased by only 1.4 per cent, compared to 1.8 per cent in Ontario and 1.9 per cent in Canada. The net number of new jobs was only 35 000. In fact, the downturn in employment growth has continued since the fourth quarter of 1974. In the fourth quarter of 1975, there were only 18 000 more jobs than in the same period in 1974.

Examination of employment in 1975 by sectors shows that manufacturing was especially affected by the slowdown in economic activity. This sector recorded a net loss of 21 000 jobs — a 3.5 per cent decrease since 1974. Employment also declined by 18.5 per cent in the forestry sector, with a loss of 5 000 jobs. In contrast, employment increased by 9 000 jobs in the construction industry and by 50 000 in the tertiary sector.

The 1975 downturn in employment growth had serious repercussions on the unemployment rate, which rose from 7.3 per cent in 1974 to 8.8 per cent in 1975. The seasonally-adjusted employment rate rose since the fourth quarter of 1974 to 9.2 per cent during the last quarter of 1975. During the past year, it was 6.0 per cent in Ontario and 7.1 per cent in Canada.

Participation rates in 1975 stood at 57.2 per cent in Quebec, compared to 61.3 per cent and 58.8 per cent in Ontario and Canada respectively. The spread in participation rates is even more marked for women, with figures of 38.0 per cent in Quebec, 44.4 per cent in Ontario, and 40.9 per cent in Canada.

Investment

The performance of the Quebec economy with regard to investment was particularly disappointing during the latter half of the sixties, when the province experienced a marked deterioration in its relative position. Since 1971, there has been an upturn in investment in Quebec, and its share of all investment in Canada grew from 20 per cent in 1970 to 23 per cent in 1975. This improvement has not, however, made it possible to completely close the gap that had developed during the preceding period.

The upswing in manufacturing investment during the 1972 to 1974 period, the successful efforts to catch up in the business, financial and commercial services' sectors, and the beginning of construction on many large public projects such as Mirabel International Airport, the James Bay project, the Olympic Games, the extension of the subway, the Montreal water-treatment plant, as well as the extension of the highway system, are among the many factors which have contributed to the improvement in Quebec investment since 1971. As for manufacturing, it appears that Quebec's share of Canadian investment increased regularly at first, rising from 20 per cent in 1971 to 27 per cent in 1974, and then dropping to 23 per cent in 1975.

During the past year, private and public investment increased by 15.8 per cent in Quebec, compared to 12.6 per cent in Ontario and 14.1 per cent in Canada. The greatest increases were in the business, financial and commercial services' sectors, with a rise of \$508.9 million or 42.6 per cent, and in public utilities, where the increase reached \$574.4 million or 32.8 per cent. On the other hand, investment in manufacturing industries grew by only 0.3 per cent in Quebec, compared to 29.5 per cent in Ontario and 15.4 per cent in Canada.

Incomes and Prices

Per capital personal income in Quebec has always remained below the national average, which shows the relative weakness of Quebec in the utilization of human resources, productivity and industrial structure. In 1975, it stood at

\$5 146, which was 92 per cent of the average for Canada. During the 1971 to 1975 period, per capita personal income grew more rapidly in Quebec than in Ontario, or in the country as a whole. This improvement was partly due to the greater increase of transfer payments by the federal government to Quebec. These transfers, as a share of personal income, rose from 11 per cent in 1970 to over 15 per cent in 1975. It should also be noted that the increase in salaries and wages was more rapid in Quebec than in Ontario or in Canada in 1975. Comparing the first nine months of 1975 to the same period in 1974, the respective increases were 15.4, 12.0 and 14.0 per cent.

Since mid-1972, the Quebec economy has also been affected by the great increase in consumer prices, especially for petroleum, raw materials and food products. In 1975, for the second consecutive year, the increase in consumer prices was slightly higher in Montreal than in Toronto or in all of Canada, the increases being 10.9, 10.7 and 10.8 per cent respectively. This situation can be explained primarily by the greater rise in the cost of clothing and transportation in Montreal.

Industrial Activity

The industries in the tertiary sector are taking an ever-increasing part in the economy, in terms both of production and employment. In 1961, these industries accounted for 52 per cent of all employment in Quebec, and by 1975 this proportion had increased to 65 per cent. At the same time, however, the primary sector experienced a considerable decline in its relative importance, when its share of employment dropped from 11.5 per cent in 1961 to 5.4 per cent in 1975. The relative share of the secondary sector in total employment also decreased from 36.5 per cent in 1961 to 29.6 per cent in 1975. Manufacturing was the most seriously affected in this sector, dropping from 29.8 per cent in 1961 to 24.6 per cent in 1975.

The short-term slowdown in economic activity in Quebec since the third quarter of 1974 has affected the manufacturing sector in particular, as well as the forestry and mining industries. By contrast, the construction industry's performance has remained excellent.

Agriculture

The economic situation in agriculture was relatively good in 1975. The net income of Quebec's agricultural producers, after a 3 per cent decline in 1974, increased by 20.4 per cent in 1975. There was also an increase of 3 000 jobs in this sector. The increased incomes from dairy and pork production were mainly responsible for this improvement. By contrast, a difficult situation continues for beef cattle raisers, because of the price stability of their products and increased production costs. The outlook for the agricultural economy in 1976 is much less optimistic, with a predicted decrease of 20 per cent in net incomes, because of the expected rise in production costs. The situation in the dairy industry, which accounts for a sizable part of agricultural revenues in Quebec, remains uncertain because of the overproduction of powdered milk.

The performance of Quebec's forestry industry in 1975 was affected by the changes which took place in the sawn-timber industry, and the paper and related products industry. The deterioration of these has greatly reduced the amount of wood cut in the forests. The number of forestry workers has also dropped considerably, from 27 000 in 1974 to 22 000 in 1975, a decrease of 18.5 per cent.

The wood industry recorded a significant drop in its level of activity, having been affected by the slowdown in housing construction and by the recent decline in the paper and related products industry. Many firms have had to close down, especially in northwestern Quebec and the Saguenay - Lac St Jean area.

The paper and related products industry which, since 1972, had benefited from the upswing in demand for its products and had been able to operate at full capacity, nevertheless saw its situation worsen toward the end of 1975, because of the slowdown in economic activity and the numerous strikes which forced several plants to shut down. The situation in this industry should improve in 1976. In the longer term, however, it must be noted that Quebec's industry is deteriorating in

relation to that of British Columbia and the southern United States. Quebec's higher costs for forestry operations, for paper production, and for transportation of the products to the major markets, as well as the lower productivity of existing equipment, are the main factors affecting the competitive position of the Quebec industry.

The Mining Industry

The Quebec mining industry is presently experiencing a number of difficulties. Having barely recovered from its lethargic performance of the late sixties, since mid-1974 it has had to face a significant drop in demand for base metals, along with a considerable increase in production costs and a manpower shortage. The present economic situation, characterized by low demand and a fall in the price of certain minerals, is hardly conducive to investment in new mines and mining exploration. It should be noted that expenditures for mining exploration are very low in Quebec. Therefore, it has proved difficult to maintain mineral production in the province at a steady level, and existing reserves - particularly of non-ferrous metals - have been seriously depleted. Since the early sixties, the value, in real terms, of mineral production in Quebec has been rising at a maximum annual rate of 4.5 per cent. Furthermore, the Quebec portion of the value of Canadian mineral production has gradually dropped from 19.3 per cent in 1966 to 9.9 per cent in 1974. During the last year, a number of mining companies had to shut down. This situation has had a particularly damaging effect on the economy of certain outlying areas which are largely dependent on mining - especially northwestern Quebec and the Chibougamau area.

The Manufacturing Industry

During the sixties, progress in this sector of Quebec industry was very slow, and Quebec's position declined in relation to that of the other provinces. After the period of stagnation from 1967 to 1971, this sector made a moderate recovery from 1972 to 1974. However, the situation was again to deteriorate in disturbing fashion in 1975, as a result of the recession in North America.

Capital expenditures in manufacturing rose from \$546 million to \$1 374 million between 1971 and 1974. This represents respective annual increases of 26.4, 36.2 and 46.1 per cent. These increases appear to be higher than for Canada as a whole, and the Quebec portion of capital expenditures in the Canadian manufacturing industry increased from 18.2 per cent in 1971 to 27.7 per cent in 1974. On the other hand, capital expenditures in the Quebec manufacturing industry dropped by 0.6 per cent in 1975, while they rose by 37.6 per cent and 18.2 per cent in Ontario and Canada respectively. The Quebec portion of capital expenditures in the Canadian manufacturing industry fell to 23.2 per cent in 1975.

With respect to employment, the performance of the Quebec manufacturing industry also improved in 1973 and 1974. There was a net total of 45 000 new jobs created in Quebec over the two-year period. During the period 1967 to 1972, the net number of jobs created was only 22 000. In 1975, however, the situation began to give cause for alarm, because the industry showed a net loss of 21 000 jobs, which is equivalent to a 3.5 per cent drop in relation to 1974. The situation of the work force in the manufacturing industry has been gradually deteriorating since the third quarter of 1974. The average number of persons employed during the third quarter of 1975 was 31 000 fewer than the figure recorded for the previous year.

After an increase of 28.6 per cent in 1974, the value of shipments in manufactured goods increased by only 5.9 per cent during the first eleven months of 1975 in relation to the same period in 1974. The corresponding increase was 6 per cent in Ontario and 5.7 per cent in Canada.

The Construction Industry

The startling growth of the construction industry in Quebec over the last few years continued in 1975, while for the third consecutive year marked increases were registered in expenditures for construction and employment. The vitality of this sector has helped to maintain the growth of the Quebec economy during the current slowdown. In 1975, expenditures for construction totalled \$6 586 million, which represents an increase of 19.3 per cent, following successive increases of

16.8 per cent and 26.2 per cent in 1973 and 1974. There was also a rapid upswing in the number of jobs in this sector over the last three years, with successive increases of 13 000, 12 000 and 9 000. For the last year, this represents an increase of 6.4 per cent, as compared to 1.2 per cent for Canada as a whole.

The vigour displayed recently by the construction industry is due to the rapid growth of investment since 1971. It was generated largely by major investment projects such as James Bay, the Olympic Games, Mirabel Airport, and a number of construction projects in the industrial and commercial sectors of Montreal. These projects alone have mobilized a large portion of the resources in the construction sector, and have continued to exert their influence in 1975. They were, however, competing with other projects and created a shortage of skilled workers, particularly in the Montreal area.

With respect to residential construction, there was a considerable drop in housing starts. In 1973, housing starts in Quebec totalled a record 59 550 units. For 1974, they totalled 51 642 units — a drop of 13 per cent in relation to 1973. The sector has, however, made a significant recovery since the third quarter of 1975, with housing starts totalling 54 741 units for the year.

Next year, the major investment projects already underway and the recovery of the housing sector will continue to have a positive effect on the development of the construction sector. However, the increase in construction expenditures in the industrial, public and quasi-public sectors will probably be relatively small. With the termination of construction work for the Olympic Games and the completion of certain commercial projects such as hotels and office buildings, activity in this sector could even slow down in Montreal toward the end of the year. Therefore, this sector cannot be expected to play a major role in creating an upswing in production and employment.

The Tertiary Sector

Over the last few years, tertiary industries have been continuing to increase their share of economic activity,

but at a slower rate than in the past. While these industries were responsible for nearly 80 per cent of the net number of jobs created between 1966 and 1971, this proportion dropped to 66 per cent over the period 1971 to 1974. This development is due to a larger contribution on the part of the manufacturing and construction industries in the area of job creation during this period. In 1975, however, there was an increase of 50 000 in the number of persons hired in these industries, which enabled the total size of the work force to increase by 35 000, in spite of significant decreases in the manufacturing and forestry industries.

In 1975, investments in the tertiary sector represented nearly 55 per cent of the Quebec total. Of this, the business, finance and business service groups registered the largest increase, which was 42.6 per cent as compared to only 16.5 per cent in Canada. Investments in this sector, after having an exceptional year in 1966 because of Expo '67, subsequently registered a heavy downswing and remained at a low level until 1971. Since 1972, investment in hotels, office buildings and commercial centres has been rising rapidly, indicating that a catch-up process is under way. There has also been a sharp upswing of \$574.4 million, or 32.8 per cent, in investment in the public utilities sector. The James Bay project accounts for a large part of this investment.

The Regional Situation

The Quebec economy is characterized by marked inequalities at the regional level. Economic activity is not distributed evenly throughout the region, and there are major inequalities in growth and in income and employment opportunities.

Regional Inequalities

In the outlying areas of Quebec, personal disposable income per capita is well below the provincial average. In 1971, it was only 66, 78 and 83 per cent of the latter average in the Lower St. Lawrence - Gaspé, Saguenay - Lac St Jean and northwestern Quebec regions respectively. The Montreal area, on the other hand, registered an income which was 9 per cent

higher than the Quebec average. It should also be pointed out that transfer payments constitute a large proportion of personal income in the outlying areas. In 1971, these payments represented 21.7 per cent of personal income in the Lower St. Lawrence - Gaspé area, as compared to 13 per cent for the province as a whole.

The under-utilization of human resources is also very pronounced in certain areas of Quebec, and in particular the outlying areas. Thus in 1975, the unemployment rate for the Lower St. Lawrence - Gaspé, North Shore and Saguenay - Lac-St Jean areas combined was 17.2 percent, or double the provincial average. Moreover, the lack of available employment in these areas tended to keep the rate of participation below the provincial average.

These regional inequalities are also reflected in demographic trends. A considerable decline in population because of extensive out-migration was recorded in a number of areas in Quebec. For example, since 1971 the populations of the Abitibi - Témiscamingue, Lower St. Lawrence - Gaspé areas have declined at annual average rates of 2.2 and 0.1 per cent respectively.

The Situation in Montreal.

The Montreal area is considered the driving force behind the Quebec economy. It may be recalled that Greater Montreal accounts for 46 per cent of the population of Quebec and 53 per cent of the province's shipments of manufactured goods. Personal disposable income in this area represents 50 per cent of that of Quebec, and the retail trade accounted for 47.8 per cent of all Quebec transactions in 1975.

As far as the development of this area is concerned, many studies have shown that - particularly since the early sixties - Montreal has been losing ground in relation to the major North American centres. Montreal's importance has diminished in a number of sectors such as transportation, finance, research and the manufacturing industry, and the other sectors have apparently been unable to offset this trend. Moreover, the Toronto area was growing at a rapid rate during the same period, and its population was increasing much more rapidly than that of Montreal.

The manufacturing industry in Greater Montreal suffered a severe decline from 1968 on, after benefiting from a period of continuous growth between 1964 and 1968 because of the 1967 International Exposition. From 1968 to 1972, the size of the work force dropped by 2 per cent every year, without any proportional increase in productivity. Nearly 22 000 jobs were lost as a result. More than half of those jobs were lost because of the 13.5 per cent drop in the work force in the transportation equipment industry, due to the difficulties encountered by Canadair and United Aircraft. There was also a gradual shift in the Montreal manufacturing industry toward non-durable goods. In 1968, this sector employed 60.3 percent of the total work force in the manufacturing industry. In 1972, this figure reached 65.9 per cent.

Over the last few years, the Montreal area has registered a relatively high level of activity. This upswing is mainly due to the major investment projects which have been carried out. Preparations for the Olympic Games coincided with a number of public projects such as the Mirabel International Airport, extension of the road network, extension of the subway, the major expansion of industrial and commercial construction. These projects have had a considerable impact, not only in the building sector but also in a number of manufacturing industries which supply it. They have thus generated accelerated growth of the work force and of employment, and have stimulated migration toward Montreal.

The investment projects currently under way will continue to support the Montreal economy for some time to come. The completion of several of these projects in 1976 and the postponement or staggering of other projects may, nonetheless, cause a downturn in the economic activity of the Montreal area in the second half of this year. It should also be taken into account that the decline in the Quebec manufacturing industry since late 1974 affects the Montreal area, where much of this industry is concentrated.

SOME OPPORTUNITIES FOR DEVELOPMENT

The province of Quebec offers considerable potential for development. In this section, some of the possibilities are studied, as well as the obstacles to realizing this potential.

Preamble

The manufacturing industry in Quebec is highly concentrated in activities of a traditional nature, where the growth of demand is rather slow and often largely dependent on the Canadian market alone. In addition, several of these activities are labour-intensive, and although wages are relatively low by Canadian standards, manufacturers are finding it increasingly difficult to meet the competition from countries with low production costs, in spite of the tariff protection they enjoy. In 1972, consumer goods industries accounted for 61.5 per cent of the jobs in manufacturing in Quebec, compared to 39.3 per cent in Ontario.

Industries with rapid growth and high productivity, manufacturing durable goods of original design or using advanced technology, are much less developed in Quebec. Thus in 1972 these industries accounted for some 15 per cent of the jobs in manufacturing, compared to nearly 29 per cent in Ontario. They were responsible for 13.7 per cent of manufacturing shipments from Quebec, compared to 38.2 per cent from Ontario.

In view of the structural nature of the deficiencies in the Quebec manufacturing industry, the province places a priority on intervention with a view to accelerating the strengthening of the industrial structure, through projects designed to allow international competition to be met and inroads to be made into foreign markets. The strategy is primarily intended to produce significant long-term results, and goes beyond the single perspective of immediate job creation. The objective is to instil a lasting vitality into the Quebec manufacturing sector. The principal projects which have attracted attention affect the aluminum, petrochemical, steel, heavy transport equipment, lumber products, machinery and the agri-food sectors.

The Agricultural Food Industry

In 1974, the Quebec Department of Agriculture laid down the broad outlines of an agricultural development policy. The province considers it a matter of priority to increase its self-sufficiency in those areas of production where it is particularly weak and in those areas which show real potential for improvement. Among the latter, Quebec has considered beef and pork production, as well as grain production.

Certain obstacles will have to be overcome before these objectives can be achieved. Thus, the province plans to increase productivity in the Montreal area. The area contains some of the most fertile land in the province, but productivity is relatively low because of insufficient irrigation. The government of Quebec also intends to introduce an agricultural zoning law in 1976, to protect arable land from speculation and urban encroachment.

Recognizing that the vitality of the agricultural sector depends on the existence of a well-developed processing industry, the province also plans to encourage development of the agricultural products processing industry. To accomplish this, the government set up, in 1975, the Société québécoise d'initiatives agro-alimentaires (SOQUIA), with a share capital of \$10 million, of which \$3 million would be received from the government in its first year of operation and \$3.5 million in each succeeding year.

Other possibilities for development in this sector have been brought to light: modernization and enlargement of the Saint-Hilaire sugar refinery, the setting up of quick-frozen foods plants, regrouping and modernization of slaughterhouses, and expansion of quick-frozen food products storage facilities.

The Forestry Industry

The lumber and pulp and paper industries hold an important position in the economic activities of the province: they account for about a fifth of Quebec's total exports. In 1973 the value of shipments reached about a third of the value for the industry in Canada. The industry plays a key role in the economy of the different parts of the province, as it is located throughout Quebec. The pulp and paper industry

includes 50 mills, which provide some 45 000 jobs directly and nearly 30 000 jobs in lumbering.

The major problems faced by the pulp and paper industry in Quebec result from the cyclical instability of demand, as well as the weakening of its comparative advantages on a technological level. These difficulties are related mainly to higher raw material costs than those of its American competition, as well as lower productivity because of obsolescent facilities. Other countries have been able to adapt their technology to allow types of wood to be used that previously could not be reduced to pulp. It should be emphasized, however, that the Canadian industry still benefits from certain advantages which will ensure its future growth. In particular, these are an adequate supply of high-quality types of wood, competitive costs for its energy requirements, a well-developed transportation system and a thorough technological knowledge of the industry.

As for the sawmill industry, its present problems are caused by its fragmented structure. On the one hand, there are a large number of small mills some of which are quite antiquated, and on the other hand, a relatively small number of large, highly productive ones.

Given these conditions, it would appear to be essential to promote greater rationalization in the use of wood resources, to permit a better balance of growth and modernization in the sawmill and pulp and paper industries. In this respect, it should be noted that in the past several years the Quebec Department of Lands and Forests has adopted numerous measures to promote a more rational use of forest resources.

The measures adopted are intended to totally reorganize forest management, notably by revising the system used for issuing timber licenses. The management of forest resources will henceforth be based on two distinct criteria: the natural capacity of the forest and the province's lumber requirements. The government will be particularly concerned with planning of reforestation and consolidation of lumbering areas. In the field of forestry research, the province will emphasize studies dealing with the production, harvesting and marketing of wood products.

On the industrial level, the province will attempt, on the one hand, to encourage modernization of processing plants, and on the other hand, to promote the creation of integrated industrial complexes. The possibility of setting up such a complex in the Saint-Félicien area is presently under study. This project would include, at the outset, a number of sawmills and a pulp mill, to which would later be added a paper mill and plywood factories. Such a project would have the effect of stimulating economic growth in the manufacturing sector in the Saguenay - Lac St Jean area, and enabling more efficient use to be made of all the forest resources in this region, particularly the one remaining large Crown forest, north of Saint-Félicien.

The Petrochemical Industry

During the sixties, Quebec took the lead over Ontario in crude oil refining capacity. Quebec's predominance is due to the fact that the Montreal refinery complex was able, thanks to national oil policy, to obtain its supply from Venezuela or the Middle East, where the price of crude oil was low enough to make the refineries profitable. However, in spite of Montreal's lead in refining capacity, the situation of the petrochemical industry in Quebec has not improved. The relative position of Montreal and of the province of Quebec began to deteriorate even before the oil crisis of the past few years. Investments in this area since 1971 have been much lower in Quebec than in Ontario. This situation is a matter of concern to the Quebec government, in view of the fact that the petrochemical industry is a key element in any modern industrial structure.

On a short-term basis, Quebec would seem to be uncompetitive in this industry. The Edmonton complex, which uses natural gas as its raw material, is favoured by the proximity of its energy source. The Sarnia complex continues to benefit from proximity to the market. On a long-term basis, however, the petrochemical complex in Montreal is likely to benefit from certain advantages, taking into account the depletion of traditional Canadian reserves and the subsequent increase in the price of Canadian oil. The potential for improvement of the present situation seems to rest with the construction of a petrochemical complex to supplement the facilities already in operation.

The Iron and Steel Industry

The establishment and development of an integrated iron and steel industry have been given a high priority by the Quebec government. This industry is an indispensable link between the natural resources of the province and modern manufacturing industries such as metallurgy, machinery, transportation equipment and electrical equipment. These industrial activities are highly interrelated and depend on the availability of low-priced primary steel.

However, in spite of a sizable increase in recent years, steel production in Quebec has remained relatively low, and represents less than 10 per cent of production in Canada, the effect of which is to slow down the development of steel-using industries. It is also appropriate to mention that increased production of steel in Quebec could be translated into more intensive processing of a natural resource - iron ore - which is found in the province but which until now has been largely exported in the crude state. To counter the present weakness of the province in the area of primary steel production, the provincial government has placed great importance on setting up an iron and steel complex into which steel-using industries would be integrated. An important step toward vertical integration was made last June with the announcement of construction of a pellet factory at Port Cartier to process the ore extracted at Fire Lake.

According to the Quebec government, steel production in the province should reach approximately three million tons in 1980, or about 15 per cent of the total Canadian production at that time. This means that the province should practically triple its present production. Projects presently being planned will allow it to raise its primary steel production capacity, but this increase will still be minimal in terms of anticipated needs between now and the mid-eighties. The predicted increase in total capacity for the whole of Canada between now and the eighties is set at around 10 million tons. In Quebec, SIDBEC is considering an expansion of 1.7 million tons.

The Aircraft Industry

This industry is going through a difficult period at the moment, because of the gap between production facilities and lower demand. The oil crisis has contributed, among other things, to a considerable reduction in demand by the airlines for commercial aircraft.

The level of activity of the Canadian aircraft industry, which is in large part dependent on sub-contracts from American producers, has sagged considerably. Two or three Canadian producers of aircraft or aircraft components - DACAN (Douglas Aircraft) in Toronto, and Canadair in Montreal - have been particularly affected. Canadair has about 1 600 employees at present, compared to 9 000 in 1970. The federal government, recognizing the seriousness of the situation, took over the De Havilland company in Toronto in June 1974, and the Canadiar company in Montreal in December 1975. It plans to resell the two companies to private Canadian interests.

It is appropriate to give a great deal of attention to the future of the aircraft industry in Quebec, an industry whose impact on the economy is very significant.

Asbestos Products

Asbestos ore is one of the most abundant resources in Quebec. Production in the province exceeds that in the rest of Canada by a wide margin. More than two thirds of Canadian production is exported, mostly to the United States, to satisfy the very strong world demand.

Quebec's advantage in the area of extraction is not matched in the area of processing. The province processes very little asbestos at home before exporting it, and continues to import asbestos-based manufactured products. Thus it finds itself with a large balance-of-trade deficit in this commodity.

The province does, however, show some potential for processing asbestos products. Two products, among others, could be manufactured:

asbestos fabric and asbestos paper. However, there are several obstacles to more intensive processing of asbestos in Quebec: the appearance of new asbestos substitutes, the passing of laws prohibiting the use of asbestos in certain products and establishing strict standards for protection of the environment, the existence of tariff and non-tariff barriers affecting products processed from asbestos, and the renewed efforts of Third World countries to develop new mines.

Aluminum

Quebec is already very well-represented in primary aluminum production. Production from Alcan and Canadian Reynolds Metals in Quebec reaches an annual figure of 935 000 tons. A number of processing industries have been developed to satisfy the domestic market, but aluminum continues to be exported to a very large extent in crude form. Notwithstanding cyclical variations, world demand for aluminum is high, and the major producing companies have announced or are studying a number of expansion projects. The Quebec government is also considering participation in the establishment of an integrated aluminum mill which will process the raw metal into a wide variety of products intended for export.

Transportation Equipment

Integrated urban transportation systems are lacking in Quebec, even in the larger cities. Preliminary study has given some indication of the potential for development of such systems, and the presence of firms such as MLW-Bombardier, Canron, Canadian Vickers, and Bédard et Girard Ltée gives the province a good basis for expansion of the transportation equipment sector. Other possibilities have been studied in regard to construction of heavy vehicles, particularly buses, trucks, forestry and mining survey vehicles, and amphibious vehicles. The establishment and development of this type of industry should be centred to a greater extent on the creation of integrated complexes.

Sea and Air Transportation

From the point of view of transportation, Quebec enjoys a definite relative advantage due to its favourable geographic location as a gateway for freight movement between eastern Canada and the Great Lakes area. It is clear that the province will place increasing importance on the development of transportation as a stimulus for Quebec's economic development. Creation of an integrated intermodel complex, on the basis of Montreal's comparative advantages in transportation, has already been designated as a means of consolidating Montreal's role in this sector. The province would also like to see the St. Lawrence River once again become a key element in economic development. The presence of this large waterway offers an advantage which the province would like to put to use to further its own economic growth.

In the field of air transport, Montreal presently enjoys a comparative advantage over other Canadian airports. It ranks first in tonnage of freight shipments. It should be pointed out that in terms of passenger travel, however, Montreal ranks second behind Toronto, which benefits from a strategic location in this respect.

It should be acknowledged as well that Montreal's supremacy in air freight is derived largely from its location relative to European carriers, as a result of federal government policy which gives the Montreal airport a near-monopoly on international flights. Construction of the international airport at Mirabel should allow Montreal to consolidate its advantage as a gateway for international air freight.

International Trade Centre in Montreal

In view of the relative importance of international trade for the Canadian economy, it is becoming necessary to increase our promotion efforts in order to maintain a healthy trade position. Several countries have created international trade centres for this purpose. In the absence of any such organization in Canada, a group of trade promoters, in co-operation with the Quebec Department of Industry and Commerce, are thinking of setting up such a centre in Montreal, a hub

of trade activity because of its customs, financial, government, transportation and communications facilities. This trade centre will be used to promote a number of Canadian and foreign products and to centralize the full range of services related to this type of activity. An entire reception complex, directly linked to Mirabel Airport, would be a part of the international trade centre. A large-scale convention centre would also be one of the components of the project.

